

# **Audit Report Budgets Cycle**



**Prepared by:  
CAL FIRE Office of Program Accountability**

**April 2010**

In August 2009, the California Department of Forestry and Fire Protection (CAL FIRE) Office of Program Accountability (OPA) began an internal control audit of the Department's Budgets cycle.

The Financial Integrity and State Manager's Accountability Act (FISMA) of 1983 (Government Code Sections 13400-13407) requires state agencies to review and report on the adequacy of their internal control systems every two years. In accordance with FISMA, OPA periodically conducts internal control audit activities to ensure that the Department's internal control systems are in place and operative.

We thank the Budgets Office and its staff for their assistance with this review. The information received from all of the individuals involved has helped us to assess the adequacy of the Department's internal controls over the Budgets cycle.

This report presents the results of our review.

STAFF:

Anthony Favro, Chief, Office of Program Accountability  
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## Auditor's Report

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The Office of Program Accountability (OPA) has completed its audit of the accounting and administrative controls over the California Department of Forestry and Fire Protection (CAL FIRE) Budgets cycle in effect as of June 30, 2009. The audit was conducted in accordance with the *International Professional Practices Framework (IPPF)*, published by the Institute of Internal Auditors, and it included the audit tests that OPA staff considered necessary to determine that accounting and administrative controls are in place and operative.

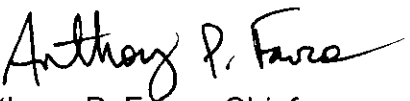
CAL FIRE's management is responsible for establishing and maintaining adequate internal control. This responsibility, in accordance with Government Code Section 13404 et seq., includes documenting internal control, communicating requirements to employees, and assuring that internal control is functioning as prescribed. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures.

The objectives of accounting and administrative control are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial statements.
- Financial operations are conducted in accordance with policies and procedures established in the State Administrative Manual.

OPA's audit did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls over the Budgets cycle. However, we did note four discussion items that are described at the end of this report.

In our opinion, CAL FIRE's accounting and administrative control over the Budgets cycle, in effect as of June 30, 2009, was sufficient to meet the objectives stated above.

  
Anthony P. Favro, Chief  
Office of Program Accountability  
April 5, 2010

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## Summary

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The California Department of Forestry and Fire Protection (CAL FIRE) Office of Program Accountability (OPA) conducted an audit of the accounting and administrative controls over the Department's Budgets cycle.

The audit was conducted to determine that established policies and procedures exist for the Budgets Office; updated authorizations are maintained; the allotment expenditure ledger (AEL) is properly established and maintained; budget revisions were properly posted to the AEL and were proper and authorized; and that budget change proposals were properly approved and used only for the intended program/purpose.

OPA's audit found that the accounting and administrative controls over the Budgets cycle are in place and operating adequately.

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## Background

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To ensure that State agency internal control systems are in place and operative, the Legislature enacted The Financial Integrity and State Manager's Accountability Act (FISMA) of 1983 (Government Code Sections 13400-13407). FISMA places the responsibility for establishing and maintaining an agency's system of internal accounting and administrative controls with the agency head. FISMA further requires each state agency to review and report on the adequacy of its internal control systems every two years.

In accordance with FISMA, OPA performs internal control audit activities to ensure that the Department's internal control systems are in place and operative. In its 2009 Audit Plan, OPA selected the Budgets cycle for audit.

Government Code Section 13403 states that the elements of a satisfactory system of internal accounting and administrative controls include:

- A plan of organization that provides segregation of duties appropriate for proper safeguarding of state agency assets.
- A plan that limits access to state agency assets to authorized personnel who require these assets in the performance of their assigned duties.
- A system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.
- An established system of practices to be followed in performance of duties and functions in each of the state agencies.
- Personnel of a quality commensurate with their responsibilities.
- An effective system of internal review.

Per Government Code Section 1236, OPA conducts its internal control audits in accordance with the *International Professional Practices Framework (IPPF)* issued by The Institute of Internal Auditors. OPA also adheres to the *Audit Guide for the Examination of Internal Control and Fiscal Compliance*, developed by Department of Finance.

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## Scope, Methodology, and Objectives

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In accordance with the *International Professional Practices Framework (IPPF)*, OPA audited the accounting and administrative controls over the Budgets cycle for the period of July 1, 2008, through June 30, 2009.

In following the Department of Finance's *Audit Guide for the Examination of Internal Control and Fiscal Compliance*, OPA interviewed key personnel, completed checklists and internal control questionnaires, identified internal accounting and administrative control strengths and weaknesses, reviewed applicable laws and regulations, performed transaction testing, analyzed supporting documents, forms, and reports, and performed other audit procedures as required.

The objective of this audit was to provide CAL FIRE Management with reasonable, but not absolute, assurance that:

1. Established policies and procedures exist for the Budgets Office;
2. Updated authorizations are maintained;
3. The allotment expenditure ledger (AEL) is properly established and maintained;
4. Budget revisions were properly posted to the AEL, were proper and authorized; and
5. Budget Change Proposals were properly approved and used only for the intended program/purpose.

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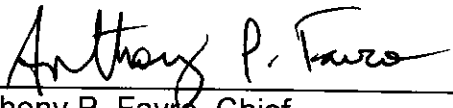
## Conclusion

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OPA's audit of the accounting and administrative controls over the CAL FIRE Budgets cycle did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on control systems in place.

In the opinion of OPA, the internal accounting and administrative control over the Budgets cycle was sufficient to meet the objectives of assuring that assets are safeguarded against loss from unauthorized use or disposition; that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial statements; and that financial operations are conducted in accordance with policies and procedures established in the State Administrative Manual (SAM).

OPA did note during its review four discussion items that are included at the end of this report. OPA has discussed these items with the Chief of Budgets, who has already begun to address them.

  
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Anthony P. Favro, Chief  
Office of Program Accountability

April 5, 2010



### **Discussion Item #1:**

The CAL FIRE Intranet contains the Budgeting Handbook, Section 3500, which addresses the Budgets Office's policies, functions, and responsibilities, and describes procedures fairly well. However, the handbook has not been updated since June 1991, with some portions revised in 1987. Since at least 18 years have passed since the last revision, it would be prudent to review the handbook to ensure that it reflects current rules, laws, regulations, and guidelines.

SAM Section 20050 states that symptoms of control deficiencies include the existence of one or more danger signals which are usually an indication of a poorly maintained or vulnerable control system. One of the danger signals is that policy and procedural or operational manuals are either not currently maintained or are nonexistent.

Budgets Office staff has not reviewed current policies and procedures to ensure that they comply with current rules, laws, regulations, or guidelines. If staff has updated the handbook, a revision date was not notated. If policies and procedures are not updated timely, CAL FIRE risks the chance of being out of compliance with any recently issued or revised rules, laws, regulations, or guidelines.

OPA recommended that staff review the handbook and update as necessary and that the revision date be notated in the handbook. The Chief of Budgets agreed and stated that updating the handbook is included in the office's two-year plan.

### **Discussion Item #2:**

The Chief of Budgets provided a listing of staff assignments for the office. Of the 83 functions listed on the assignment listing, 73 have a back-up employee assigned, while 10 have no back-up assigned. Having no back-up can lead to key-person dependency. When a function is key-person dependent, it is imperative that procedures are properly documented in case the key-person leaves before another employee can be cross-trained on that function.

Government Code, Section 13402, states that agency heads are responsible for the establishment and maintenance of a system of accounting and administrative control. This responsibility includes documenting the system, communicating the system requirements to employees, and assuring that the system is functioning as prescribed. Section 13403, states that the elements of a satisfactory system of internal accounting and administrative control shall include a plan of organization that provides segregation of duties appropriate for proper safeguarding of state agency assets.

The Budgets Office has not assigned back-up employees for some functions, which can result in key-person dependency. When a function is key-person dependent, the risk

exists that critical operating activities may not be performed correctly or at the proper time.

OPA recommended that the Budgets Office assign back-up employees to the 10 functions where a back-up person has not been assigned. The Chief of Budgets agreed with this recommendation and explained that due to vacancies within the unit, back-ups had not been assigned to all functions. She stated that back-up employees will be assigned and duty statements will be updated and signed.

### **Discussion Item #3:**

OPA obtained the Budget Revision binder from the Budgets Office. The Budget Revision form cites a SAM section that does not exist. The form is also outdated.

SAM Section 6542 states the conditions that require a Budget Revision Form (STD. 26), and Section 6545 provides instructions for proper completion of the STD. 26.

The Budgets Office does not use the STD. 26 form; rather it uses an internal document that contains no revision date and cites a nonexistent SAM section. When outdated forms are submitted to the Department of Finance, the processing and approval of budget revisions can be delayed.

OPA recommended that the Budgets Office update the Budget Revision forms and use the most current revision available. The Chief of Budgets agreed with this recommendation and stated that although the Department of Finance approves CAL FIRE's budget documents in their current form, the Budgets Office will begin using the updated form.

### **Discussion Item #4:**

During the prior Budgets cycle audit of fiscal year 2003-2005, OPA requested a list of staff authorized to approve budget documents but was unable to obtain such a list because one was not maintained by the Budgets Office. However, the mitigating factor was that all the budget documents were approved by the Chief of Budgets with initials to indicate review and approval.

For this cycle (FY 2007-2009), there is a new Chief of Budgets. OPA once again requested a list of staff authorized to approve budget documents and was again informed that a list is not maintained and that the same mitigating factor is in place (the Chief of Budgets approves all budget documents that are going out of the office). OPA's review of current budget documents indicated approval by the Chief of Budgets for documents leaving the office. Internal documents were approved by manager-level employees; however, there is no indication that those employees are authorized to sign and approve specific budget documents.

SAM Section 20050 states that symptoms of control deficiencies include the existence of one or more danger signals which are usually an indication of a poorly maintained or

vulnerable control system. One of the danger signals is that lines of organizational authority and responsibility are not clearly articulated or are nonexistent. The Department of Finance recommends preparing a list of staff authorized to approve budget documents to ensure that an adequate level of authority is present.

The Budgets Office has not developed a list of staff authorized to approve budget documents. If a list of staff authorized to approve budget documents is not maintained, it is difficult to determine if the person approving budget documents has the proper authority to do so.

OPA recommended that the Budgets Office compile a list of staff authorized to approve budget documents and that the list be current and updated as needed. The Chief of Budgets agreed with this recommendation and stated that she has already assigned a staff member to create a list of staff authorized to approve budget documents.